

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 872 (Delegate Long)  
Ways and Means

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Vessel Excise Tax and Sales and Use Tax - Exemptions - Transfer of  
Unsalvageable Boat

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This bill exempts from the State vessel excise tax and the State sales and use tax the transfer or sale of a vessel that is unsalvageable or destroyed. **The bill takes effect July 1, 2019.**

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Fiscal Summary

**State Effect:** General fund revenues and special fund revenues decrease by a minimal amount beginning in FY 2020. Based on one set of assumptions, total State revenues may decrease by approximately \$44,000 annually. General fund expenditures increase by \$81,300 in FY 2020.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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Analysis

**Current Law/Background:**

*Sales and Use Tax*

The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.9 billion in fiscal 2019 and \$5.0 billion in fiscal 2020, according to the December 2018 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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**Exhibit 1**  
**Sales and Use Tax Rates in Maryland and Surrounding States**

Delaware	0.0%
District of Columbia	6.0%; 10.0% for liquor sold for on-the-premises consumption and restaurant meals; 10.25% for alcoholic beverages for consumption off the premises, tickets to specified sporting events, and specified rental vehicles
Maryland	6.0% 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for eligible food items; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in two municipalities) or 1.0% (in 41 municipalities)

\*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region and an additional 1.7% is imposed in localities in the Historic Triangle.

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*Vessel Excise Tax*

Persons purchasing a new or used vessel within Maryland to be titled and numbered in the State as well as persons possessing within Maryland a vessel purchased outside of Maryland to be used principally in Maryland are required to pay the vessel excise tax. Licensed boat dealers must collect the excise tax on all sales of vessels to be titled and numbered in Maryland and on all sales of vessels within the State to be federally documented and principally used in Maryland.

The vessel excise tax rate is 5%, not to exceed \$15,000 for any vessel titled after July 1, 2013. Effective July 1, 2016, and each July 1 thereafter, this maximum limit is increased by \$100 each year. The tax applies to the gross purchase price or fair market value of the vessel with a deduction for the value of a trade-in. The gross purchase price, verified by a certified bill of sale, includes the boat, motor, accessories, freight, and make-ready charges. The fair market value is determined by means of a national publication of used vessel values (specifically, the *Used Boat Price Guide*). A minimum value of \$100 applies to all sales.

The excise tax on vessels does not apply to vessel sales to the U.S. government, State agencies, and local subdivisions; vessel sales to charitable organizations; transfers between members of an immediate family; and sales to licensed boat dealers for resale, rental, or lease.

Vessel excise tax revenues are estimated to total \$20.1 million in fiscal 2019. Vessel excise tax revenues are credited to the Waterway Improvement Fund (WIF). The fund may incur expenditures for the following purposes: (1) marking channels and harbors and establishing aids to navigation; (2) clearing debris, aquatic vegetation, and obstruction from State waters; (3) dredging channels and harbors and construction of jetties and breakwaters; (4) dredging State ponds, lakes, and reservoirs; (5) constructing marine facilities beneficial to the boating public; (6) improving, reconstructing, or removing bridges over waters, if those structures impede the boating public; (7) evaluating water-oriented recreation needs and recreational capacities of waterways and developing comprehensive plans for waterway improvements; (8) providing matching grants to local governments for the construction of marine facilities that promote the safety of life and property; and (9) promoting boat safety and education.

For a further detailed discussion of Maryland's sales and use tax and vessel excise tax, please see *Chapters 4 and 9, Volume III - Maryland's Revenue Structure*, of the 2018 Legislative Handbook Series.

**State Revenues:** General fund revenues and WIF revenues are estimated to decrease by a minimal amount beginning in fiscal 2020. The Department of Natural Resources estimates that, based on abandoned vessels and vessels with mechanics liens processed by the department, WIF revenues may decrease by approximately \$20,000 annually. Based on this information, it is estimated that sales and use tax revenues will decrease by approximately \$24,000 annually.

**State Expenditures:** The Comptroller's Office will incur a one-time expenditure increase of \$81,300 in fiscal 2020 to notify the approximately 130,000 sales and use tax account holders of the sales tax change.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Department of Natural Resources; Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2019  
mag/hlb

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